

**REPORT OF THE AUDIT OF THE
FLOYD COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2011**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FLOYD COUNTY FISCAL COURT

June 30, 2011

The Auditor of Public Accounts has completed the audit of the Floyd County Fiscal Court for fiscal year ended June 30, 2011.

We have issued unqualified opinions, based on our audit, on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Floyd County, Kentucky. In accordance with OMB Circular A-133, we have issued a disclaimer of opinion on the compliance requirements that are applicable to Floyd County's major federal program, CFDA #97.036, Disaster Grant – Public Assistance (Presidentially Declared Disaster).

Financial Condition:

The fiscal court had total net assets of \$4,069,046 as of June 30, 2011. The fiscal court had unrestricted net assets of \$785,804 in its governmental activities as of June 30, 2011, with total net assets of \$3,945,566. In its business-type activities, total net cash and cash equivalents were \$116,110 with total net assets of \$123,480. The fiscal court had total debt principal as of June 30, 2011 of \$15,064,000 with \$1,098,000 due within the next year.

Report Comments:

- 2011-01 The Floyd County Fiscal Court Failed To Maintain Supporting Documentation For Costs Incurred On 55 Small Projects And One Large Project
- 2011-02 The Floyd County Fiscal Court Failed To Implement Internal Controls Over Federal Compliance Requirements - For FEMA Projects
- 2011-03 The Floyd County Fiscal Court Failed To Submit Timely Quarterly Reports For A Large FEMA Project

Deposits:

The fiscal court and component units' deposits were insured and collateralized by bank securities or bonds.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Robert Marshall, Floyd County Judge/Executive
Members of the Floyd County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Floyd County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Floyd County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Floyd County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Floyd County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
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Members of the Floyd County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Floyd County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. In accordance with OMB Circular A-133, we have issued a disclaimer of opinion on the compliance requirements that are applicable to Floyd County's major federal program.

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2012 on our consideration of Floyd County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2011-01 The Floyd County Fiscal Court Failed To Maintain Supporting Documentation For Costs Incurred On 55 Small Projects And One Large Project
- 2011-02 The Floyd County Fiscal Court Failed To Implement Internal Controls Over Federal Compliance Requirements - For FEMA Projects
- 2011-03 The Floyd County Fiscal Court Failed To Submit Timely Quarterly Reports For A Large FEMA Project

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

March 30, 2012

FLOYD COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

Robert M. Marshall	County Judge/Executive
Ronnie Akers	Magistrate
Warren Jarrell	Magistrate
John Goble	Magistrate
Hattie Owens	Magistrate

Other Elected Officials:

Keith Bartley	County Attorney
Roger Webb	Jailer
Chris Waugh	County Clerk
Doug Hall	Circuit Court Clerk
John K. Blackburn	Sheriff
Connie Hancock	Property Valuation Administrator
Roger Nelson	Coroner

Appointed Personnel:

David Layne	County Treasurer
Ella M. Clay	Finance Officer

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FLOYD COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

FLOYD COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 948,014	\$ 116,110	\$ 1,064,124
Total Current Assets	948,014	116,110	1,064,124
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	3,501,249		3,501,249
Buildings	10,477,641		10,477,641
Equipment	244,892		244,892
Vehicles	1,738,168	7,370	1,745,538
Infrastructure	2,099,602		2,099,602
Total Noncurrent Assets	18,061,552	7,370	18,068,922
Total Assets	19,009,566	123,480	19,133,046
LIABILITIES			
Current Liabilities:			
Bonds Payable	1,000,000		1,000,000
Financing Obligations Payable	98,000		98,000
Total Current Liabilities	1,098,000		1,098,000
Noncurrent Liabilities:			
Bonds Payable	11,425,000		11,425,000
Financing Obligations Payable	2,541,000		2,541,000
Total Noncurrent Liabilities	13,966,000		13,966,000
Total Liabilities	15,064,000		15,064,000
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	2,997,552	7,370	3,004,922
Restricted For:			
Recreation and Culture	44,339		44,339
Roads	117,871		117,871
Unrestricted	785,804	116,110	901,914
Total Net Assets	\$ 3,945,566	\$ 123,480	\$ 4,069,046

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011

FLOYD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,380,413	\$ 766,930	\$ 3,636,601	\$ 1,178,274
Protection to Persons and Property	2,707,117	244,446	166,784	
General Health and Sanitation	2,196,856	2,216,015		
Social Services	482,222		13,596	
Recreation and Culture	1,152,022	69,627		
Roads	4,873,709		3,052,624	2,076,445
Airports	33,213			
Debt Service	635,938			
Total Governmental Activities	15,461,490	3,297,018	6,869,605	3,254,719
Business-type Activities:				
Jail Canteen	18,705	26,534		
Total Business-type Activities	18,705	26,534		
Total Primary Government	\$ 15,480,195	\$ 3,323,552	\$ 6,869,605	\$ 3,254,719

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ 2,201,392	\$	\$ 2,201,392
(2,295,887)		(2,295,887)
19,159		19,159
(468,626)		(468,626)
(1,082,395)		(1,082,395)
255,360		255,360
(33,213)		(33,213)
(635,938)		(635,938)
(2,040,148)		(2,040,148)
	7,829	7,829
	7,829	7,829
(2,040,148)	7,829	(2,032,319)
1,056,765		1,056,765
337,156		337,156
453,695		453,695
957,481		957,481
229,643		229,643
285,134		285,134
15,501		15,501
3,335,375		3,335,375
1,295,227	7,829	1,303,056
2,650,339	115,651	2,765,990
\$ 3,945,566	\$ 123,480	\$ 4,069,046

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

FLOYD COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	General Fund	Road Fund	Local Government Economic Fund	Public Properties Fund	Non- Funds	Total Funds
ASSETS						
Cash and Cash Equivalents	\$ 626,373	\$ 122,351	\$ 162,210	\$ 8,926	\$ 28,154	\$ 948,014
Total Assets	<u>626,373</u>	<u>122,351</u>	<u>162,210</u>	<u>8,926</u>	<u>28,154</u>	<u>948,014</u>
FUND BALANCES						
Restricted For:						
Recreation and Culture			44,339			44,339
Roads			117,871			117,871
Committed To:						
Debt Service				8,926		8,926
Assigned To:						
Protection to Persons and Property	68,380				3,813	72,193
Roads		122,351				122,351
Unassigned	<u>557,993</u>				<u>24,341</u>	<u>582,334</u>
Total Fund Balances	<u>\$ 626,373</u>	<u>\$ 122,351</u>	<u>\$ 162,210</u>	<u>\$ 8,926</u>	<u>\$ 28,154</u>	<u>\$ 948,014</u>

Total Fund Balances	\$ 948,014
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	24,250,047
Accumulated Depreciation	(6,188,495)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
General Obligation Bonds	(5,415,000)
Revenue Bonds	(7,010,000)
Financing Obligations	<u>(2,639,000)</u>
Net Assets Of Governmental Activities	<u>\$ 3,945,566</u>

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FLOYD COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

FLOYD COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	General Fund	Road Fund	Local Government Economic Assistance Fund	Public Properties Corporation Fund
REVENUES				
Taxes	\$ 2,467,026	\$	\$	\$
In Lieu Tax Payments	36,300			
Excess Fees	229,643			
Licenses and Permits	40,627			
Intergovernmental	1,551,084	3,789,901	5,080,362	669,970
Charges for Services	2,221,666		69,628	
Miscellaneous	270,433		48,098	
Interest	9,896	1,623	3,676	158
Total Revenues	<u>6,826,675</u>	<u>3,791,524</u>	<u>5,201,764</u>	<u>670,128</u>
EXPENDITURES				
Current:				
General Government	2,329,087			
Protection to Persons and Property	1,889,222		96,047	
General Health and Sanitation	1,998,042		198,304	
Social Services	296,657		180,450	
Recreation and Culture			984,616	
Roads		4,850,400		
Airports	33,213			
Debt Service:				
Principal	96,000			3,080,000
Interest	142,482			469,235
Bond Issuance Cost				13,600
Administration	1,412,714	380,688	180,378	10,621
Total Expenditures	<u>8,197,417</u>	<u>5,231,088</u>	<u>1,639,795</u>	<u>3,573,456</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,370,742)</u>	<u>(1,439,564)</u>	<u>3,561,969</u>	<u>(2,903,328)</u>
Other Financing Sources (Uses)				
Bond Issuance				2,200,000
Discount On Bond Issuance				(264)
Transfers From Other Funds	2,600,000	1,555,000	100,000	686,680
Transfers To Other Funds	(1,161,680)	(200,000)	(3,580,000)	
Total Other Financing Sources (Uses)	<u>1,438,320</u>	<u>1,355,000</u>	<u>(3,480,000)</u>	<u>2,886,416</u>
Net Change in Fund Balances	67,578	(84,564)	81,969	(16,912)
Fund Balances - Beginning	558,795	206,915	80,241	25,838
Fund Balances - Ending	<u>\$ 626,373</u>	<u>\$ 122,351</u>	<u>\$ 162,210</u>	<u>\$ 8,926</u>

The accompanying notes are an integral part of the financial statements.

FLOYD COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 206,788	\$ 2,673,814
	36,300
	229,643
	40,627
46,898	11,138,215
	2,291,294
12,793	331,324
147	15,500
<u>266,626</u>	<u>16,756,717</u>
35,889	2,364,976
221,816	2,207,085
	2,196,346
	477,107
	984,616
	4,850,400
	33,213
	3,176,000
	611,717
	13,600
<u>31,255</u>	<u>2,015,656</u>
<u>288,960</u>	<u>18,930,716</u>
<u>(22,334)</u>	<u>(2,173,999)</u>
	2,200,000
	(264)
	4,941,680
	<u>(4,941,680)</u>
	<u>2,199,736</u>
(22,334)	25,737
50,488	922,277
<u>\$ 28,154</u>	<u>\$ 948,014</u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

FLOYD COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$	25,737
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		986,413
Depreciation Expense		(606,058)
Assets disposed of, net book value		(86,865)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Bond Issuance		(2,200,000)
Financing Obligations Principal Payments		96,000
Bond Principal Payments		<u>3,080,000</u>

Change in Net Assets of Governmental Activities	\$	<u><u>1,295,227</u></u>
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FLOYD COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

FLOYD COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 116,110
Total Current Assets	<u>116,110</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	36,850
Less Accumulated Depreciation	<u>(29,480)</u>
Total Noncurrent Assets	<u>7,370</u>
Total Assets	<u>123,480</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	7,370
Unrestricted	<u>116,110</u>
Total Net Assets	<u><u>\$ 123,480</u></u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

FLOYD COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 26,534
Total Operating Revenues	<u>26,534</u>
Operating Expenses	
Educational and Recreational	1,155
Inmate Hygiene	1,588
Vehicle Expense	743
Food	6,971
Depreciation	5,896
Miscellaneous	<u>2,352</u>
Total Operating Expenses	<u>18,705</u>
Operating Income (Loss)	<u>7,829</u>
Change In Net Assets	7,829
Total Net Assets - Beginning	<u>115,651</u>
Total Net Assets - Ending	<u><u>\$ 123,480</u></u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

FLOYD COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund	Jail Canteen Fund
Cash Flows From Operating Activities		
Cash Receipts From Customers for Sales	\$ 26,534	
Cash Payments for Educational and Recreation	(1,155)	
Cash Payments for Inmate Hygiene	(1,588)	
Cash Payments for Vehicle Expense	(743)	
Cash Payments for Food	(6,971)	
Cash Payments for Miscellaneous	(2,352)	
Net Cash Provided (Used) By Operating Activities	<u>13,725</u>	
Net Increase (Decrease) in Cash and Cash Equivalents	13,725	
Cash and Cash Equivalents - July 1, 2010	<u>102,385</u>	
Cash and Cash Equivalents - June 30, 2011	<u><u>\$ 116,110</u></u>	
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ 7,829	
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities		
Depreciation Expense	<u>5,896</u>	
Net Cash Provided (Used) By Operating Activities	<u><u>\$ 13,725</u></u>	

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

FLOYD COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	<u>Agency Fund</u>		
	<u>Inmate Account Fund</u>	<u>Bail Bonds Fund</u>	<u>Total Agency Funds</u>
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 13,591	\$ 520	\$ 14,111
Total Assets	13,591	520	14,111
Liabilities			
Amounts Held In Custody For Others	13,591	520	14,111
Total Liabilities	13,591	520	14,111
Net Assets			
Total Net Assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Floyd County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The county has no discretely presented component units.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Floyd County Public Properties Corporation

The directors of the Floyd County Public Properties Corporation (PPC) are the duly elected County Judge/Executive and the other duly elected members of the Fiscal Court. The term of each director of the Corporation coincides with the director's term of office as a member of the Fiscal Court. Consequently, the governing board of the Corporation is entirely composed of Fiscal Court members and the Fiscal Court has the ability to impose its will on the governing board. In addition, the Fiscal Court is financially accountable and legally obligated for the debt of the Public Properties Corporation. The Floyd County Fiscal Court must approve the issuance of bonded debt for the Public Properties Corporation; therefore, the Floyd County Public Properties Corporation is fiscally dependent.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Floyd County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Floyd County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Floyd County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function. The Jail Fund, Construction Fund and the Revolving Loan Fund have been included in this fund per the requirements of GASB 54.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Floyd County Public Properties Corporation Fund – The Floyd County Public Properties Corporation accounts for the activities of the Public Properties Corporation (PPC), a blended component unit of the County. The Public Properties Corporation issued debt to build major facilities or additions to be used by the County such as the County's Detention Center and its Solid Waste/Landfill facility, or to be leased to other agencies. The Public Properties Corporation entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky, in which AOC wishes to use and sublease all or a portion of certain facilities owned by the County. Receipts also include bond principal and interest payments from the Floyd County Racing Commission and Appalachian Racing, Inc. for the entire amount of the principal and interest payments made on the Fairgrounds and Convention Center Bonds. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: State Grant Fund, Federal Grant Fund, and Emergency 911 Fund.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Special Revenue Funds:

The Road Fund, Local Government Economic Assistance Fund, State Grant Fund, Federal Grant Fund and Emergency 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

Debt Service Fund:

The Public Properties Corporation Fund is presented as debt service funds. A debt service fund is to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Utility Tax Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary funds:

Inmate Account Fund - This fund accounts for funds received from inmates of the jail for the jail commissary and returned after their release.

Bail Bonds Fund – This fund accounts for funds of bail bonds collected from inmates and turned over to the Circuit Court Clerk.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	40-75
Buildings and Building Improvements	\$ 25,000	40-75
Machinery and Equipment	\$ 2,500	5-25
Vehicles	\$ 2,500	5-20
Infrastructure	\$ 20,000	5-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the County Treasurer to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Floyd County Public Properties Corporation Fund (blended component unit) and the Jail Canteen Fund are not budgeted by the County Treasurer. The Department for Local Government does not require the fiscal court to report or budget these funds.

Note 2. Deposits

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 3,501,249	\$	\$	\$ 3,501,249
Construction In Progress	80,727	6,138	(86,865)	
Total Capital Assets Not Being Depreciated	3,581,976	6,138	(86,865)	3,501,249
Capital Assets, Being Depreciated:				
Buildings	13,817,943	86,865		13,904,808
Equipment	614,914			614,914
Vehicles	2,848,624	211,274		3,059,898
Infrastructure	2,487,042	682,136		3,169,178
Total Capital Assets Being Depreciated	19,768,523	980,275		20,748,798
Less Accumulated Depreciation For:				
Buildings	(3,244,359)	(182,808)		(3,427,167)
Equipment	(339,255)	(30,767)		(370,022)
Vehicles	(1,148,028)	(173,702)		(1,321,730)
Infrastructure	(850,795)	(218,781)		(1,069,576)
Total Accumulated Depreciation	(5,582,437)	(606,058)		(6,188,495)
Total Capital Assets, Being Depreciated, Net	14,186,086	374,217		14,560,303
Governmental Activities Capital Assets, Net	\$ 17,768,062	\$ 380,355	\$ (86,865)	\$ 18,061,552

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 71,557
Protection to Persons and Property	180,521
General Health and Sanitation	510
Social Services	5,115
Recreation and Culture	23,598
Roads, Including Depreciation of General Infrastructure Assets	<u>324,757</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 606,058</u>

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 3. Capital Assets (Continued)

Capital asset activity for Business-Type Activities for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 36,850	\$	\$	\$ 36,850
Total Capital Assets Being Depreciated	36,850			36,850
Less Accumulated Depreciation For:				
Vehicles and Equipment	(23,584)	(5,896)		(29,480)
Total Accumulated Depreciation	(23,584)	(5,896)		(29,480)
Total Capital Assets, Being Depreciated, Net	13,266	(5,896)		7,370
Business-Type Activities Capital Assets, Net	\$ 13,266	\$ (5,896)	\$ 0	\$ 7,370

Depreciation expense was charged to functions of the Business-Type Activities as follows:

<u>Business-Type Activities</u>	
Jail Canteen	\$ 5,896
Total Depreciation Expense - Business-Type Activities	<u>\$ 5,896</u>

Note 4. Interfund Receivables, Payables, and Transfers

	General Fund	Road Fund	LGEA Fund	Total Transfers In
General Fund	\$	\$ 200,000	\$2,400,000	\$ 2,600,000
Road Fund	375,000		1,180,000	1,555,000
LGEA Fund	100,000			100,000
Public Properties Corporation	686,680			686,680
Total Transfers Out	<u>\$ 1,161,680</u>	<u>\$ 200,000</u>	<u>\$3,580,000</u>	<u>\$ 4,941,680</u>

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Short-term Debt

A. Line of Credit

On July 1, 2010, Floyd County drew down \$500,000 from a line of credit. This line of credit was used to pay off contractors for work associated with flooding. The county paid this line of credit back on December 28, 2010.

B. Changes In Short-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Line of Credit	\$	\$ 500,000	\$ 500,000	\$	\$
Business-type Activities					
Short-term Liabilities	\$ 0	\$ 500,000	\$ 500,000	\$ 0	\$ 0

Note 6. Long-term Debt

A. First Mortgage Revenue Refunding Bonds, Series 2002 - Justice Center Project

On September 2002, the Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$9,165,000 in First Mortgage Revenue Bonds, Series 2002. The proceeds from these refunding bonds were used to refinance the 1995 First Mortgage Revenue Bonds, Series A and 1996 First Mortgage Revenue Bonds, Series B. These bonds are scheduled to mature in 2026 and carry an interest rate of 3.0% to 4.75%. Semiannual interest payments are required in September 1 and March 1 of each year.

The Floyd Public Properties Corporation is acting as an agent for the Administrative Office of the Courts in order to manage and maintain the Justice Center. The Floyd Public Properties Corporation expects rentals for use of the Justice Center to be in the full amount of the principal and interest requirements of the bonds.

Under the terms of a lease, the Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowances payment as provided in the lease. The lease agreement is renewable each year. The Floyd Public Properties Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds.

The Administrative Office of the Courts with the execution of the lease of expressed its intention to continue to pay the full allowance payment in successive biennial budget period until September 2026. However, the lease does not obligate the Administrative Office of the Courts to do so.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 6. Long-term Debt (Continued)

A. General Obligation Improvement Bonds, Series 1999 (Continued)

As of June 30, 2011, the principal balance on these bonds was \$7,010,000. Debt service requirements for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2012	\$ 305,298	\$ 315,000
2013	293,495	325,000
2014	280,771	340,000
2015	267,141	350,000
2016	252,613	365,000
2017-2021	1,007,300	2,085,000
2022-2026	467,282	2,625,000
2027	14,368	605,000
Totals	<u>\$ 2,888,268</u>	<u>\$ 7,010,000</u>

B. First Mortgage Revenue Anticipation Notes, Series 2007 - Convention Facility - Racetrack

In April 2007, The Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$2,205,000 in First Mortgage Revenue Anticipation Notes, Series 2007. The proceeds from these refunding notes were used to refinance the First Mortgage Revenue Anticipation Notes, Series 2004 associated with the Thunder Ridge Fairground and Convention Center. On April 28, 2011, the county paid this bond off with First Mortgage Revenue Bond Anticipation Renewal Notes, Series 2011.

C. Big Sandy Area Development District - Office Building

On October 16, 1992, Floyd County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for the construction of an office building for use by the Big Sandy Area Development District. The principal amount of the lease was \$850,000. Under a sublease agreement, the Big Sandy Area Development District will pay to the County sufficient funds to meet lease rental requirements. The agreement requires variable monthly payments for 25 years to be paid in full January 20, 2018. The principal balance remaining as of June 30, 2011 was \$354,000. Lease payments for the remaining year are:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2012	\$ 17,856	\$ 43,000
2013	15,523	45,000
2014	13,070	48,000
2015	10,412	50,000
2016	7,758	53,000
2017-2018	6,723	115,000
Totals	<u>\$ 71,342</u>	<u>\$ 354,000</u>

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 6. Long-term Debt (Continued)

D. KADD - Southern Water

In June 2006, the Floyd County entered into a lease agreement with Kentucky Area Development Districts Financing Trust, Series 2006K in the amount of \$2,600,000. The lease was used to refund the First Mortgage Revenue Bond Anticipation 2004 B in the amount of \$2,455,000. Terms of the agreement stipulate a thirty-year repayment schedule, with biannual interest payments at a fixed rate of 4.56%. The principal amount is due December 1, and June 1, of each year. As of June 30, 2010, the principal balance was \$2,285,000. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2012	\$ 102,866	\$ 55,000
2013	100,940	60,000
2014	98,660	60,000
2015	96,380	65,000
2016	93,910	65,000
2017-2021	425,168	370,000
2022-2026	335,076	460,000
2027-2031	218,552	575,000
2032-2035	69,092	575,000
Totals	<u>\$ 1,540,644</u>	<u>\$ 2,285,000</u>

E. General Obligation Refunding Bonds, Series 2010

In May 2010, Floyd County issued \$3,850,000 in General Obligation Refunding Bonds, Series 2010. The proceeds from these refunding bonds were used to refinance the General Obligation Refinancing Bonds, Series 1999 - Detention, Solid Waste, and Gas. These bonds are scheduled to mature in 2017 and carry an interest rate of 1.00% to 2.75%. Semiannual interest payments are required in September and March, with a principal payment due in March. As of June 30, 2010, the principal balance outstanding on the remaining bonds is \$3,215,000. Debt service requirements for the remaining years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2012	\$ 61,393	\$ 635,000
2013	53,138	645,000
2014	43,463	650,000
2015	31,113	420,000
2016	22,712	430,000
2017	11,962	435,000
Totals	<u>\$ 223,781</u>	<u>\$ 3,215,000</u>

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 6. Long-term Debt (Continued)

F. First Mortgage Revenue Bonds, Series 2011 - Convention Facility - Racetrack

In April 2011, The Floyd County Public Properties Corporation, a component unit of the Floyd County Fiscal Court, issued \$2,200,000 in First Mortgage Revenue Anticipation Notes, Series 2011. The proceeds from these refunding notes were used to refinance the First Mortgage Revenue Anticipation Notes, Series 2007 associated with the Thunder Ridge Fairground and Convention Center. These notes are scheduled to mature in May 2015 and carry an interest rate of 4.5%. Semiannual interest payments are required in November and May and the full principal amount is due in May 2011. As of June 30, 2011, the principal balance outstanding on these notes was \$2,200,000. Debt service requirements for fiscal year ending June 30, 2011, and subsequent years are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Interest	Scheduled Principal
2012	\$ 99,825	\$ 50,000
2013	96,750	50,000
2014	94,500	50,000
2015	92,250	2,050,000
Totals	<u>\$ 383,325</u>	<u>\$ 2,200,000</u>

G. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds-Series 2010	\$ 3,850,000	\$	\$ 635,000	\$ 3,215,000	\$ 635,000
General Obligation Bonds-Series 2011		2,200,000		2,200,000	50,000
Revenue Bonds	7,310,000		300,000	7,010,000	315,000
Revenue Anticipation Notes	2,145,000		2,145,000		
Financing Obligations	2,735,000		96,000	2,639,000	98,000
Governmental Activities					
Long-term Liabilities	<u>\$ 16,040,000</u>	<u>\$ 2,200,000</u>	<u>\$ 3,176,000</u>	<u>\$15,064,000</u>	<u>\$ 1,098,000</u>

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$121,793 in interest on financing obligations and \$464,460 in interest on bonds and notes.

Note 8. Garth Landfill

The Garth Landfill quit accepting garbage in the mid 1990's. The Fiscal Court must comply with established state and federal landfill closure and post closure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. During the fiscal year ended June 30, 2011 the county incurred \$55,533.94 (SW-06) for monitoring, supplies, equipment and testing associated with the closing of Garth Landfill.

Note 9. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

The county's contribution for FY 2009 was \$536,308, FY 2010 was \$650,361, and FY 2011 was \$668,794.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 9. Employee Retirement System (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 10. Deferred Compensation

The Floyd County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 11. Insurance

For the fiscal year ended June 30, 2011, Floyd County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 12. Related Party Transactions

The county used the Floyd County Attorney Keith Bartley's brother's company, Bartley Rollback, for contracted services. The amount of services rendered totaled \$66,935 for the fiscal year 2011.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 13. Subsequent Events

In a court case related to the Floyd County Jail, the County Attorney has disclosed that depending on the outcome of a case dealing with significant injuries an inmate received, the county may be responsible for an amount that exceeds the County's insurance policy's \$1,000,000 liability limit.

Note 14. Prior Period Adjustments

The following are adjustments that were made to the prior period net assets:

Net Asset - July 1, 2010	\$ 2,666,024
Depreciation Expense Miscalculation	(19,790)
Prior Year Voided Checks	<u>4,105</u>
Restated Net Assets - July 1, 2010	<u><u>\$ 2,650,339</u></u>
Restated Fund Balances:	
General Fund Balance - June 30, 2010	\$ 554,690
Voided Checks	<u>4,105</u>
Restated Balance - June 30, 2010	<u><u>\$ 558,795</u></u>

Note 15. Change In Accounting Principle

The county implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type definitions which has altered the classifications of Fund Balance on the Balance Sheet – Governmental Funds and the presentation of funds. The Jail, Revolving Loan, and Construction Funds previously presented as special revenue funds do not meet the definition of a special revenue fund in the current year. Therefore, fund balances, revenues, and expenses of these funds are reported in the General Fund.

FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011

FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,532,300	\$ 2,532,300	\$ 2,467,026	\$ (65,274)
In Lieu Tax Payments	18,000	18,000	36,300	18,300
Excess Fees	150,500	150,500	229,643	79,143
Licenses and Permits	39,500	39,500	40,627	1,127
Intergovernmental Revenue	1,281,900	1,281,900	1,132,088	(149,812)
Charges for Services	1,950,000	1,950,000	2,216,015	266,015
Miscellaneous	697,585	697,585	240,596	(456,989)
Interest	7,000	7,000	9,137	2,137
Total Revenues	6,676,785	6,676,785	6,371,432	(305,353)
EXPENDITURES				
General Government	2,444,970	2,761,245	2,329,087	432,158
Protection to Persons and Property	313,535	615,535	327,614	287,921
General Health and Sanitation	1,997,000	2,004,200	1,998,042	6,158
Social Services	287,000	297,000	296,657	343
Airports	5,000	37,000	33,213	3,787
Bus Services	20,000	20,000		20,000
Debt Service	1,111,095	1,012,595	487,701	524,894
Administration	1,121,400	1,089,424	1,007,738	81,686
Total Expenditures	7,300,000	7,836,999	6,480,052	1,356,947
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(623,215)	(1,160,214)	(108,620)	(1,051,594)
OTHER FINANCING SOURCES (USES)				
Line of Credit	500,000	500,000	500,000	
Line of Credit Payoff			(500,000)	(500,000)
Transfers From Other Funds	200,000	200,000	1,000,000	800,000
Transfers To Other Funds	(300,000)	(300,000)	(800,000)	(500,000)
Total Other Financing Sources (Uses)	400,000	400,000	200,000	(200,000)
Net Changes in Fund Balance	(223,215)	(760,214)	91,380	851,594
Fund Balance - Beginning	223,215	223,215	247,331	24,116
Fund Balance - Ending	\$ 0	\$ (536,999)	\$ 338,711	\$ 875,710

FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 4,137,000	\$ 4,137,000	\$ 3,789,901	\$ (347,099)
Interest	1,000	1,000	1,623	623
Total Revenues	4,138,000	4,138,000	3,791,524	(346,476)
EXPENDITURES				
Roads	4,567,175	4,998,635	4,850,400	148,235
Debt Service	5,000	5,000		5,000
Administration	527,825	496,185	380,688	115,497
Total Expenditures	5,100,000	5,499,820	5,231,088	268,732
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(962,000)	(1,361,820)	(1,439,564)	(77,744)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	1,000,000	1,000,000	1,555,000	555,000
Transfers To Other Funds	(100,000)	(100,000)	(200,000)	(100,000)
Total Other Financing Sources (Uses)	900,000	900,000	1,355,000	455,000
Net Changes in Fund Balance	(62,000)	(461,820)	(84,564)	377,256
Fund Balance - Beginning	62,000	62,000	206,915	144,915
Fund Balance - Ending	\$ 0	\$ (399,820)	\$ 122,351	\$ 522,171

FLOYD COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 7,715,000	\$ 7,715,000	\$ 5,080,362	\$ (2,634,638)
Charges for Services	75,000	75,000	69,628	(5,372)
Miscellaneous	75,000	75,000	48,098	(26,902)
Interest	4,000	4,000	3,676	(324)
Total Revenues	7,869,000	7,869,000	5,201,764	(2,667,236)
EXPENDITURES				
General Government	400,000			
Protection to Persons and Property	134,525	134,525	96,047	38,478
General Health and Sanitation	2,552,000	1,973,000	198,304	1,774,696
Social Services	200,000	200,000	180,450	19,550
Recreation and Culture	2,307,855	2,416,155	984,616	1,431,539
Capital Projects	200,000	100,000		100,000
Administration	385,620	319,310	180,378	138,932
Total Expenditures	6,180,000	5,142,990	1,639,795	3,503,195
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	1,689,000	2,726,010	3,561,969	835,959
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			100,000	100,000
Transfers To Other Funds	(1,950,000)	(1,950,000)	(3,580,000)	(1,630,000)
Total Other Financing Sources (Uses)	(1,950,000)	(1,950,000)	(3,480,000)	(1,530,000)
Net Changes in Fund Balances	(261,000)	776,010	81,969	(694,041)
Fund Balances - Beginning	261,000	261,000	80,241	(180,759)
Fund Balances - Ending	\$ 0	\$ 1,037,010	\$ 162,210	\$ (874,800)

FLOYD COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation to the Statement of Revenue, Expenditures And Changes In Fund Balances

Total Revenues	\$ 6,371,432
Add: Jail Fund Intergovernmental Revenues	418,995
Add: Jail Fund Charges For Services Revenues	5,651
Add: Jail Fund Miscellaneous Revenues	29,837
Add: Jail Fund Interest	379
Add: Revolving Loan Fund Interest	75
Add: Construction Fund Interest	306
	<hr/>
Total Revenue to Statement	<u>\$ 6,826,675</u>
 Total Expenditures	 \$ 6,480,052
Add: Jail Fund Protection to Persons and Property Expenditures	1,561,608
Add: Jail Fund Administration Expenditures	404,976
Less: Public Properties Corporation Fund Debt Payments	(249,219)
	<hr/>
Total Expenditures to Statement	<u>\$ 8,197,417</u>
 Other Financing Sources	 \$ 200,000
Add: Transfers to Jail Fund From LGEA Fund	1,500,000
Add: Transfer to Jail Fund From Road Fund	100,000
Add: Transfers Out to Jail Fund From General Fund	325,000
Add: Transfer Out to PPC Fund for Debt Service	(686,680)
	<hr/>
Total Other Financing Sources (Uses) to Statement	<u>\$ 1,438,320</u>

**FLOYD COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2011

FLOYD COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

	State Grant Fund	Federal Grant Fund	Emergency 911 Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 3,813	\$ 91	\$ 24,250	\$ 28,154
Total Assets	<u>3,813</u>	<u>91</u>	<u>24,250</u>	<u>28,154</u>
FUND BALANCES				
Assigned:				
Protection to Persons and Property	3,813			3,813
Unassigned		91	24,250	<u>24,341</u>
Total Fund Balances	<u>\$ 3,813</u>	<u>\$ 91</u>	<u>\$ 24,250</u>	<u>\$ 28,154</u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2011

FLOYD COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

	State Grant Fund	Federal Grant Fund	Emergency 911 Fund	Total Non-Major Governmental Funds
REVENUES				
Taxes	\$	\$	\$ 206,788	\$ 206,788
Intergovernmental	11,009	35,889		46,898
Miscellaneous			12,793	12,793
Interest			147	147
Total Revenues	<u>11,009</u>	<u>35,889</u>	<u>219,728</u>	<u>266,626</u>
EXPENDITURES				
General Government		35,889		35,889
Protection to Persons and Property	11,009		210,807	221,816
Administration			31,255	31,255
Total Expenditures	<u>11,009</u>	<u>35,889</u>	<u>242,062</u>	<u>288,960</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)			<u>(22,334)</u>	<u>(22,334)</u>
Net Change in Fund Balances			(22,334)	(22,334)
Fund Balances - Beginning	3,813	91	46,584	50,488
Fund Balances - Ending	<u>\$ 3,813</u>	<u>\$ 91</u>	<u>\$ 24,250</u>	<u>\$ 28,154</u>

The accompanying notes are an integral part of the financial statements.

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FLOYD COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FLOYD COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2011

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Homeland Security</u>		
Passed-Through State Office of Homeland Security:		
Disaster Grant - Public Assistance (Presidentially Declared Disasters)		
(CFDA 97.036)	FEMA-1841-DR KY	<u>\$ 1,117,543</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 1,117,543</u></u>

FLOYD COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2011

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Floyd County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - Determination of Major Program

The Type A program for the fiscal court is any program for which total expenditures of federal awards exceed \$300,000 for fiscal year 2011 or were deemed high risk. The Type A program was:

- CFDA #97.036 Disaster Grant – Public Assistance (Presidentially Declared Disasters)

Note 3 - Noncash Expenditures

There were no noncash expenditures of federal awards for fiscal year 2011.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Robert Marshall, Floyd County Judge/Executive
Members of the Floyd County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Floyd County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 30, 2012. Floyd County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Floyd County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Floyd County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Floyd County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Floyd County Fiscal Court's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Floyd County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Floyd County Judge/Executive's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

March 30, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNALCONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Robert Marshall, Floyd County Judge/Executive
Members of the Floyd County Fiscal Court

**Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133**

Independent Auditor's Report

Compliance

We were engaged to audit the compliance of Floyd County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. Floyd County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Floyd County's management.

As described in items 2011-01 and 2011-02 in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of Floyd County with CFDA #97.036, Disaster Grant – Public Assistance (Presidentially Declared Disaster) regarding activities allowed or unallowed, allowable costs, cash management, matching/level of effort/earmarking, and period of availability of federal funds, nor were we able to satisfy ourselves as to Floyd County's compliance with those requirements by other auditing procedures.

Because we were unable to obtain sufficient documentation to support project worksheets, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the compliance with requirements referred to above that are applicable to CFDA #97.036, Disaster Grant – Public Assistance (Presidentially Declared Disaster). We also noted other instances of noncompliance which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2011-03.

Internal Control Over Compliance

The management of Floyd County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Floyd County's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Floyd County's internal control over compliance.



Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And On Internal Control Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and another we considered to be a significant deficiency.

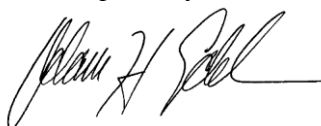
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-01 and 2011-02, to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-03 to be a significant deficiency.

The Judge/Executive's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', is written over a horizontal line.

Adam H. Edelen
Auditor of Public Accounts

March 30, 2012

FLOYD COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2011

**FLOYD COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2011

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Floyd County.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Floyd County were disclosed during the audit.
4. Three significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report. Two of the reported deficiencies are also considered material weaknesses.
5. The auditor's report on compliance for the audit of the major federal awards programs for Floyd County expresses a disclaimer of opinion.
6. There are three findings relative to the major federal awards programs for Floyd County reported in Part C of this schedule.
7. The program tested as a major program was: Disaster Grant – Public Assistance (Presidentially Declared Disaster), CFDA #97.036.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Floyd County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

2011-01 The Floyd County Fiscal Court Failed To Maintain Supporting Documentation For Costs Incurred On 55 Small Projects And One Large Project

Federal Program: CFDA 97.036

Federal Agency: U.S. Department of Homeland Security

Pass-through Agency: Department of Military Affairs

Compliance Area: Activities Allowed/Allowable Costs/Matching

Known Questioned Costs: \$1,117,543

Condition: During testing of Public Assistance (PA) Program -Disaster #1841, we noted there was no documentation to substantiate costs for multiple small projects and one large project. A large project is one with estimated costs of \$64,200 or more. These projects were not accounted for properly as required by the U. S. Department of Homeland Security. The County did not maintain folders for each project by project worksheet (PW) and did not have invoices and other required documentation to support federal funds spent on 55 small projects and one large project listed as not complete according to a Federal Emergency Management Agency (FEMA) report generated on January 27, 2012. Auditor allowed the County nine working days to update the folders for each project. After the time elapsed, the auditor allowed the County an additional three working days to update 10 files selected by the auditor to sample from the list of 56 projects. The County was only able to provide one completed file. Please note that some of these 56 projects have expenditures recognized on the prior year Schedule of Expenditures of Federal Awards. The known question costs of \$1,117,543 represent the total amount of expenditures the County is recognizing in the current year.

FLOYD COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2011
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

2011-01 The Floyd County Fiscal Court Failed To Maintain Supporting Documentation For Costs Incurred On 55 Small Projects And One Large Project (Continued)

The one folder provided included 2 PW's (project number 1014 and 1053). These were for a road that required work on thirteen different sites in all totaling \$99,843. The actual expenses per the invoices in the folder were \$197,570. The county apparently spent \$97,727 more on this project than allotted by FEMA. The documentation does not tie any invoice to a certain site on the road. The other 9 PW's sampled had incomplete folders.

Auditor's also, as part of testing for the sample of 10 folders, made a site visit to three other project sites. We could not determine with certainty the county used the correct amount of gabion baskets on any of the sites. Gabion baskets are fabricated of thick galvanized wire, which are filled with stone and stacked on one another, usually in tiers that step back with the slope rather than vertically. The most common civil engineering use of gabions is to stabilize shorelines or slopes against erosion. Other uses also include retaining walls. A count was made and it did not equal the total of gabion baskets required by the PW to complete the scope of work. As a result, we requested representatives from Kentucky Emergency Management and FEMA conduct their own site visits to determine if the scope of the work was adequate. These representatives visited 11 sites from the 56 projects deemed not complete. No sites had any conflict of opinion to work completed or not. The report does note that 5 of the 11 sites have work that was either too little or too much as set forth by the scope of the PW.

Criteria: Public Assistance program awards are made based upon a PW prepared by a project formulation team. The PW documents the project formulation team's determination of the eligible scope of work and cost estimate. The allowed activities for the Public Assistance program are for the approved project as described on the PW and supporting documentation. The approved project may be repair or replacement of the damaged facility, an improved project, or an alternate project (44 CFR section 206.203). Allowable costs are restricted to eligible costs such as equipment usage by applicant owned equipment, administrative costs, and force account labor costs. In some instances, projects are completed by a contractor instead of the applicant.

Costs are considered eligible for applicant owned equipment if the rates charged per hour for use of the equipment follow established state guidelines or are approved by FEMA if greater than \$75 per hour. Administrative costs are eligible if the applicant uses management cost funding as prescribed in the State administrative plan. Straight or regular-time salaries and benefits of the applicants permanently employed personnel are considered eligible cost for permanent restoration projects, not emergency protective services or debris removal. Contractor costs are considered eligible provided federal, state, and local laws for procurement are followed.

FLOYD COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2011
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT
(Continued)

2011-01 The Floyd County Fiscal Court Failed To Maintain Supporting Documentation For Costs Incurred On 55 Small Projects And One Large Project (Continued)

Additionally, the County is required to match a certain percentage of costs as required by the Commonwealth of Kentucky.

Cause: Internal controls over reporting the status and completion of projects did not exist. The Road Foreman was in charge of overseeing the projects, however costs associated with each project did not undergo a documented verification or approval process prior to submission to FEMA for reimbursement and folders were not sufficiently maintained to determine compliance with *OMB Circular A-133 Compliance Supplement* compliance requirements.

Effect: The County has questioned costs of \$1,117,543 and is at risk for losing future FEMA project declarations.

Recommendations:

We recommend the County comply with OMB Circular A-133 Compliance Supplement Compliance requirements by:

- maintaining adequate supporting documentation for all FEMA projects, specifically by project worksheet, with invoices and other documentation to support scope of work performed and costs incurred by County, including the required match from the County.

We also recommend the County follow-up with the Kentucky Emergency Management to determine proper resolution of questioned costs.

County Judge/Executive's Response: The County maintains that the widespread devastation caused by the 2009 flood required additional funds be spent in order to allow Floyd County Schools to re-open and repair all roads to allow school buses to safely transport students to/and from school. The County will meet with the road foreman and the applicant agent to insure that all required supporting documentation is maintained in accordance with the recommendations.

FLOYD COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2011
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT
(Continued)

2011-02 The Floyd County Fiscal Court Failed To Implement Internal Controls Over Federal Compliance Requirements - For FEMA Projects

Federal Program: CFDA 97.036
Federal Agency: U.S. Department of Homeland Security
Pass-through Agency: Department of Military Affairs
Compliance Area: Cash Management/Period of Availability
Known Questioned Costs: \$82,884

Condition: The County has received all federal funds for Public Assistance (PA) Program-Disaster #1841. Total costs for the disaster is \$4,079,741, which includes \$3,675,937 in federal funds. The funds were received during the fiscal years ended June 30, 2009, 2010, 2011 and a small portion in 2012. These funds were not maintained separately from other county funds and the total amount of federal funds received over the four years was deposited into the Road Fund, an interest bearing bank account.

During testing, we noted there was no documentation to substantiate costs for multiple small projects and one large project as noted in comment 3. Invoices that were made available for project costs indicate contractors performed the work and waited until the County received payment from FEMA prior to sending in the invoice for payment. This practice allowed the County to make partial payments. In one instance, the County paid \$40,000 on an invoice for drains totaling \$65,930, on February 16, 2011. The County paid an additional \$25,000 on April 15, 2011. The work was performed in May 2010, nine to eleven months prior to payment.

Also, the County informed auditors that the scope of work on the one large project, which federal funds of \$82,884 were received in September 2009, was not completed as of February 2012.

Criteria: When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. Similarly, recipients must establish similar procedures for sub-recipients. Interest earned by local government subgrantees on advances is required to be submitted promptly, but at least quarterly, to the Federal agency and up to \$100 per year may be kept for administrative expenses.

When a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. For Disaster #1841, the County had until November 29, 2010 to complete the small projects not deemed an emergency project or debris removal.

Cause: Internal controls over reporting the status and completion of projects did not exist. The Road Forman was in charge of overseeing the projects, however costs associated with each project did not undergo a documented verification or approval process prior to submission to FEMA for reimbursement and folders were not sufficiently maintained to determine compliance with *OMB Circular A-133 Compliance Supplement* compliance requirements.

Effect: The County has questioned costs of \$82,884 and is at risk for losing future FEMA project declarations.

FLOYD COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2011
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT
(Continued)

2011-02 The Floyd County Fiscal Court Failed To Implement Internal Controls Over Federal Compliance Requirements - For FEMA Projects (Continued)

Recommendation: We recommend the County comply with OMB Circular A-133 Compliance Supplement Compliance requirements by maintaining adequate supporting documentation for all FEMA projects, specifically by project worksheet, with invoices and other documentation to support scope of work performed and costs incurred by County, including the required match from the County. We also recommend the County follow-up with the Kentucky Emergency Management to determine proper resolution of questioned costs.

County Judge/Executive's Response: With regards to the above stated project, after the initial FEMA assessment the County determined it would be necessary that an outside contractor be hired as the project would require that large pieces of steel would need to be driven in order to complete the project. The local contractor informed the County that the initial assessment by FEMA did not take into consideration of the number of active power lines located at the job site and work on the project could not be completed in a safe manner. The County will discuss this matter with the Road Foreman to determine the best course of action in order to safely complete the above stated project. The County will also meet with the Road Foreman and the Applicant Agent to insure that all required supporting documentation is maintained in accordance with the recommendations.

2011-03 The Floyd County Fiscal Court Failed To Submit Timely Quarterly Reports For A Large FEMA Project

Federal Program: CFDA 97.036
 Federal Agency: U.S. Department of Homeland Security
 Pass-through Agency: Department of Military Affairs
 Compliance Area: Special Tests and Provisions

Condition: Floyd County (sub-grantee) did not submit quarterly reports for the large project associated with Disaster #1841 in a timely manner. The county submitted one report for the year on October 13, 2010 to Kentucky Emergency Management (grantee). A report for June 30, 2011 was submitted a month late on August 15, 2011. The report wasn't submitted until KDEM notified them.

Criteria: As a requirement of 44 CFR 13.40, the sub-grantee shall submit quarterly reports for any large project to the grantee that show progress and financial status. The report should include the following:

- Reported costs were incurred in performance of eligible work
- Approved work was completed
- The project is in compliance with the provisions of the FEMA-State agreement
- Payments for the project were made in accordance with 44 CFR section 13.21 payment provisions

Cause: Internal controls over reporting the status and completion of projects did not exist. The Road Forman was in charge of overseeing the projects, however costs associated with each project did not undergo a documented verification or approval process prior to submission to FEMA for reimbursement. Additionally, the County did not follow-up on reporting to Kentucky Emergency Management.

Effect: The County is at risk for losing future FEMA project declarations.

FLOYD COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2011
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT
(Continued)

2011-03 The Floyd County Fiscal Court Failed To Submit Timely Quarterly Reports For A Large FEMA Project (Continued)

Recommendation: We recommend the County comply with OMB Circular A-133 Special Tests and Provisions by submitting reports on large projects in a timely manner. The report should include all required elements as stated above in the criteria.

County Judge/Executive's Response: The County will meet with the Road Foreman and Applicant Agent to discuss this matter. The County will make sure that all outstanding quarterly reports are completed and filed by the Applicant Agent per the recommendation.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

FLOYD COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2011**

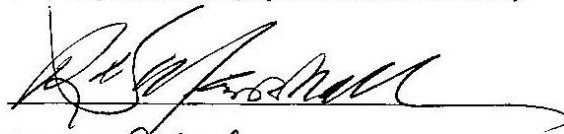
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

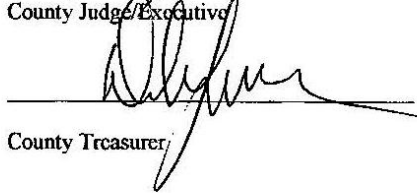
FLOYD COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2011

The Floyd County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs were expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

